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MULTIMEDIA UNIVERSITY

SUPPLEMENTARY EXAMINATION

TRIMESTER 1, 2015/2016

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II
(All Section / Groups)

17 NOV 2015
9.00 AM – 12.00 PM
(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages with 5 questions only.
 2. Answer **ALL** questions in the answer booklet provided.
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QUESTION 1**Part A**

Explain when it will be appropriate for the company to recognize revenue in each of the following situations, in compliance with MFRS 118: *Revenue*.

- a) A contract for sale of machinery stipulates successful installation as an integral and significant part of the contract. The machinery has been delivered to the buyer's site but has not been installed. RM50,000 of the contract sum was paid on delivery of the plant.

(3 marks)

- b) Red Event Berhad entered into a contract to manage concert performances for a band over a period of one year. The contract required an upfront deposit of RM40,000 of total contract value and the balance of RM60,000 payable in equal installments at the beginning of the next two quarters.

(3 marks)

Part B

Trans Berhad is a construction company, engages in the business of building bridge. It determines the percentage of completion of its contract based on the proportion of cost incurred to date compared to the total expected cost of the contract.

On 1 April 2013, Trans Berhad signed a fixed cost contract with Green Leaf Berhad to construct a bridge which was scheduled to take three years to complete.

The following data were compiled for the year ended 31 December 2013 and 31 December 2014.

	2013	2014
	RM'000	RM'000
Contract price	400,000	400,000
Variation to price (increase)	-	40,000
Cost to date	150,000	294,000
Estimated cost to complete	290,000	126,000
Progress billings	140,000	280,000

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Instructions:

In accordance to MFRS111: *Construction Contracts*:

- a) Explain the recognition criteria for contract revenue and contract costs and relate it with the case of Trans Berhad.

(4 marks)

- b) Prepare the extracts of the financial statements of Trans Berhad in respect of the above construction contracts for the year ended 31 December 2013 and 31 December 2014.

(10 marks)

(Total: 20 marks)

QUESTION 2**Part A**

The financial statements of DEF Sdn Bhd are given below:

Statement of Comprehensive Income for the year ended 31 December 2014

	RM'000
Revenue	23,220
Cost of sales	(10,520)
Gross profit	12,700
Gain on change in fair value of investment properties	900
Distribution costs	(1,600)
Administrative expenses	(7,690)
Finance costs	(240)
Profit before tax	4,070
Income tax expense	(1,230)
Profit for the year	2,840

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Statements of Financial Position as at 31 December

	2014 RM'000	2013 RM'000
Non-current assets		
Property, plant and equipment	18,640	13,320
Intangible asset	1,500	4,200
Investments properties	4,200	4,600
Current assets		
Inventories	2,200	1,700
Trade receivables	1,600	1,840
Tax recoverable	-	30
Bank	80	-
Non-current asset held for sale	4,960	-
	<u>33,180</u>	<u>25,690</u>
Equity and Liabilities		
Ordinary share of RM1 each	15,000	12,500
Share premium	2,500	-
Revaluation reserve	2,800	2,100
Retained profit	6,620	5,200
Non-current liabilities		
6% Loan notes	4,000	4,000
Deferred tax	820	630
Current liabilities		
Trade payable	1,350	1,080
Bank overdraft	-	180
Tax payable	90	-
	<u>33,180</u>	<u>25,690</u>

The following information is available:

- i. An equipment with a carrying value of RM4,230,000 was sold during the year for RM3,850,000. Depreciation of property, plant and equipment for the year was RM2,460,000.
- ii. The intangible asset refers to a brand which was acquired few years ago. DEF determined the brand to have an indefinite useful life. An impairment test carried out on 1 January 2014 revealed that the brand suffered an impairment loss of RM1,200,000. The remaining useful life of the brand was two years. There was no addition or disposal of intangible assets during the year.

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- iii. DEF adopts the fair value model in the subsequent measurement of its investment properties in accordance with MFRS 140: *Investment Property*. During the year, it sold one of its investment properties for RM1,800,000. No purchases were made during the year.
- iv. On 1 October 2014, a building with a carrying value of RM5,800,000 was classified as held for sale.
- v. There was an issue of shares for cash on 1 October 2014. There were no bonus issues of shares during the year.
- vi. The 6% loan notes were issued five years ago. There was no issue or redemption of the loan notes during the year.

Instructions:

- a) Prepare a statement of cash flow for DEF Bhd for the year ended 31 December 2014 in accordance with MFRS 107: *Statement of Cash Flows* using the direct method.
(15 marks)
- b) Prepare a statement reconciling the profit before tax to the cash generated from operations.
(2 marks)

Part B

The objective of MFRS 136: *Impairment of Assets* is to ensure that assets are not carried at above their recoverable amounts.

Instructions:

Explain what is meant by an impairment review. Your answer should include reference to assets that may form a cash generating unit.

(3 marks)

(Total: 20 marks)

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QUESTION 3**Part A**

Bless Berhad is developing a new beauty product. During year 2014, the expenditure incurred was RM240,000 of which RM200,000 was incurred before 1 October 2014 and the balance was incurred from October to December 2014. On October 2014, the entity was able to demonstrate that the project can meet all the criteria for recognition as an intangible asset. In year 2015, the cost incurred was RM120,000. At the end of 2015, the recoverable amount was RM150,000.

Instructions:

Prepare the journal entries for the accounting transactions in year 2014 and 2015, in compliance with the MFRS138: *Intangible Assets*.

(8 marks)

Part B

- i. MFRS 120: *Accounting for Government Grants and Disclosure of Government Assistance* deals with accounting for and disclosure of government grants and other forms of government assistance.

Instruction:

Discuss the recognition criteria for government grant as prescribed in the said MFRS above.

(6 marks)

- ii. ABC Bhd. purchased an equipment costing RM950,000 on 1 March 2014. On this date, it received a government grant of RM600,000 for the equipment purchased. The equipment has a useful life of 5 years. Depreciation is on the straight line method with a residual value of RM50,000. The company's year-end is 31 December.

Instruction:

Illustrate the extract of the Statements of Comprehensive Income and Statements of Financial Position for the year ended 31 December 2014, if the grant is accounted for under the deferred income method.

(6 marks)

(Total: 20 Marks)

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QUESTION 4

On 1 October 2013, Power Berhad acquired 60% of the share capital of Science Berhad for RM9,600,000 which was discharged by a payment of cash. Below are the summarised draft balance sheets of both companies.

Statement of Financial Position as at 30 September 2014

	Power Berhad RM'000	Science Berhad RM'000
<i>Non-current assets</i>		
Property, plant and equipment	40,600	12,600
Investment in Science Bhd (at cost)	9,600	
<i>Current assets</i>	<u>16,000</u>	<u>6,600</u>
	<u>66,200</u>	<u>19,200</u>
<i>Equity and liabilities</i>		
Ordinary shares of RM1 each	19,600	4,000
Retained earnings	<u>35,400</u>	<u>6,500</u>
	55,000	10,500
<i>Non-current liability</i>		
10% loan notes	3,000	4,000
<i>Current liabilities</i>	<u>8,200</u>	<u>4,700</u>
Total equity and liabilities	<u>66,200</u>	<u>19,200</u>

The following information is relevant:

- (i) At the date of acquisition, the fair values of Science Berhad's assets were equal to their carrying amounts with the exception of the land, which had a fair value of RM2,000,000 in excess of its carrying amount. Science Berhad has not adjusted the carrying amount of its land as a result of the fair value exercise.
- (ii) The pre-acquisition reserve of Science Bhd was RM5,000,000.
- (iii) Science Berhad's trade receivables at 30 September 2014 include RM600,000 due from Power Berhad which did not agree with Power Berhad's corresponding trade payable. This was due to cash in transit of RM200,000 from Power Berhad to Science Berhad. Both companies have positive bank balances.

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Instructions:

- (a) Calculate the goodwill on consolidation. (6 marks)
- (b) Prepare a consolidated statement of financial position for Power Berhad as at 30 September 2014. Show all relevant workings. (14 marks)
- (Total: 20 marks)**

QUESTION 5**Part A**

OPC Bhd, a property development company, has the following outstanding borrowings and their corresponding costs for the year ended 30 April 2015:

	Amount borrowed	Rate of interest
	RM'000	
A term loan from a bank	70,000	14%
Unsecured loan stock issued	50,000	7%
A foreign currency loan	80,000	7.5%
	<u>200,000</u>	

The borrowings were raised to part-finance the development of three shop lots projects currently in progress, without specifically identifying which borrowings were earmarked to which shop lots project.

For the year ended 30 April 2015, Project A was allocated and utilised RM45,000,000 of the borrowed funds.

Instructions:

In accordance to MFRS 123: *Borrowing Costs*:

- a) Calculate the capitalization rate to be applied for interest capitalization to the shop lots projects for the year ended 30 April 2015. (4 marks)
- b) Calculate the amount of interest that qualifies for capitalization and the finance cost that should be reported in the income statement for the year ended 30 April 2015. (5 marks)

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Part B

On 1 January 2014, JNJ Bhd purchases a factory for investment purpose. The factory costs RM75,000,000, according to the sale and purchase agreement. JNJ Bhd also incurs the following costs in connection with the purchase of the factory:

	RM'000
Legal and agency fees	5,000
Feng Shui costs for re-design of main entrance	30
Administrative expenses	5
	<hr/>
	5,035

The factory is expected to have a useful life of 50 years with a salvage value of RM100,000. The market value of the factory is RM95,000,000 as at 31 December 2014.

Instructions:

In accordance to MFRS 140: *Investment Property*:

- Calculate the cost of the investment property on initial recognition.
(3 marks)
- Discuss the accounting treatment of the factory in year 2014, if JNJ Bhd had used the cost model. Show relevant journal entries.
(4 marks)
- Discuss the accounting treatment of the factory in year 2014, if JNJ Bhd had used the fair value model. Show relevant journal entries.
(4 marks)

(Total: 20 Marks)

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